

## Acute Asprismatism

Some comments on Michal Kalecki's article "Vietnam through the US Prism" in Polityka, number 3, January 21, 1967.

Kalecki's facts concerning aggregate defense expenditures and GNP in the US are not and need not be at issue -- although we note in passing that he shows little discrimination in distinguishing between total defense expenditures and those related to the Vietnam war. His basic economic argument is the issue over which we may profitably cross swords. Straightforward facts challenge his assumptions about the geographic distribution of US defense expenditures. Kalecki argues, on a quasi-socio-cultural basis, using Marxist terminology, that there are two classes of capitalists in the US: those old-established industrialists of the northeast and midwest, and the "new" industrial owner classes of the south and far west. He sees the "new" group as villains; unlike the older group of "Wall Street Imperialists", which he says has developed peace-loving tendencies, this new breed mongs war with great energy. He argues that when defense expenditures skyrocketed in 1966 (especially in the second half), the capitalists of the west and south were the principal beneficiaries and that their economic interests and the prolongation of the Vietnam War are coincident. He concludes that, through their influence, the War is likely to continue for some considerable time.

If we accept, as a stalking-horse, Kalecki's assumptions about the class structure of American capitalism, his argument disintegrates. As Table 1 shows, the geographic balance of economic advantage from prime defense contracts has swung toward the north and east since 1963 and

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instructions apply.

Table 1 . Geographic Distribution of US Military Prime Contract Awards, 1962-1966

	FY1962	FY1963	FY1964	FY1965	FY1966	July- December 1965	January- June 1966	July- December 1966
Grand Total - Millions of US Dollars	25,039	25,233	24,417	23,268	31,713	13,451	18,262	17,553
Percentages:								
"Traditional" Industrial Areas: East and Midwest	51.6	49.8	50.7	51.2	56.1	53.4	57.9	53.4
"New" Industrial Areas: South and Far West	48.4	50.2	49.3	48.8	43.9	46.6	42.1	46.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

## Notes:

1. Data cover all prime contract awards of \$10,000 or more.

2. Geographic coverage, by states, is as follows:

"Traditional" Areas: Connecticut, Delaware, Dist. of Columbia, Illinois, Indiana, Iowa, Kansas, Maine, Maryland, Massachusetts, Michigan, Minnesota, Missouri, Nebraska, New Hampshire, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Dakota, Vermont, and Wisconsin.

"New Areas". . . . . Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Idaho, Kentucky, Louisiana, Mississippi, Montana, Nevada, New Mexico, North Carolina, Oklahoma, Oregon, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wyoming.

Source: Department of Defense.

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especially since the Vietnam buildup began in earnest in 1965. Whereas the "traditional" and "new" industrial areas each received about half of the total contracts let through 1964, the distribution had shifted to roughly 60%-40% in favor of the "traditional" areas when the value of contracts let peaked in the first half of CY 1966.<sup>1/</sup> According to our estimates, the "Incremental Contract Advantage" of the eastern/midwestern area comes close to sixty percent; that is, for every billion dollars of new contracts let to US manufacturing industry during the Vietnam War buildup, this area receives about \$600 million.<sup>2/</sup>

The data used here (which are the only ones available on an unclassified basis) are subject to several inaccuracies, all of which help rather than hinder our argument. The data ignore the subcontracting that takes place in defense procurement. The balance of subcontract flows runs from West to East (e.g. a western aircraft manufacturer will purchase control devices and other components from some firm like Honeywell in Minneapolis). The data also do not take account of ownership patterns in industry, which probably show an eastern bias.

<sup>1/</sup> Note that Kalecki speaks in terms of expenditures, which did peak in the second half of 1966. Our results are consistent with these terms, because one can expect about a half-year lag between granting contracts and commencing payments for performance under those contracts.

<sup>2/</sup> These estimates are derived from a simple regression of contracts going to the east/midwest area (Y) on total contracts (X), from January, 1965 to December, 1966. The equation for the fitted regression line is  $Y = 0.46 + .5665X$ , where Y and X are in billions of dollars. The standard error of estimate for Y is .559 and that for the slope coefficient is .0312. The coefficient of correlation (r) is .9923;  $r^2 = .9846$ , and the values of both coefficients pass significant tests within 99% confidence limits.

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Kalecki's chief error has been to misapprehend the commodity structure of defense outlays connected with the Vietnam War buildup. While it is true that many of America's large, military-oriented firms are located in the West and South, it is also a fact that they are heavily concentrated in the aerospace and "big war" fields, and have not been particularly strong participants in the war effort. Kalecki has missed the point that the Vietnam war has involved substantial outlays to provide ground troops with conventional weapons and mobile equipment, as well as medical supplies and equipment.<sup>1/</sup> For such items the eastern/midwestern industrial heartland is still the principal producer. New defense contracts for missile and space systems have actually fallen from \$6.8 billion in FY 1962 to \$4.3 billion in FY 1966. The western and southern areas together account for about 70% of all military missile and space systems contracts, so that these areas definitely have been placed at a relative disadvantage by recent shifts in the composition of military outlays.

The evidence adduced above is sufficient to discredit the relevance of Kalecki's principal assumption and thus to destroy the argument based upon that assumption. There still exists the danger that the evidence could shift him to the more time-honored line that would place all guilt upon the "Wall Street Imperialist Warmongers". But that becomes a case where one's politics informs one's reasoning and where economics weighs little in the balance.

<sup>1/</sup> This point is elaborated in the attached excerpt from the January, 1967 issue of the Survey of Current Business, which discusses recent defense expenditures in terms of their relation to the 1966 GNP.

Appendix: Excerpt from US Dept. of Commerce Survey of Current Business, 47:1 (January, 1967), page 10.

Urgency in Defense Outlays.

The increase in Federal Government purchases, from \$67 billion in 1965 to \$77 billion last year, was concentrated in Department of Defense military outlays, which showed the largest absolute change since the Korean War.

About two-fifths of the increase occurred in compensation, as the number of persons in the armed forces and in the civilian defense establishment grew rapidly. In Early 1965, the Armed Forces strength ranged between 2.6 million and 2.7 million, and the United States had about 25,000 men in Vietnam. By the end of 1965, the total had increased to 2.9 million and by yearend 1966 to about 3.4 million, with close to 400,000 in Vietnam. Civilian employment in the Defense Department increased more than 150,000 during 1966.

. . . the increased size of the Armed Forces is still below the Korean War peak of 3.7 million reached in the Spring of 1952. The Korean War buildup, starting from a much lower manpower base than in 1965, exceeded 2 million in less than two years. Subsequently, total military strength edged downward although the war continued until mid-1953.

The remaining three-fifths of last year's defense increase reflected the higher operating and maintenance costs associated with the war and the rapid manpower buildup; these included outlays for textiles, equipment, fuel, and many other types of soft goods and services. Deliveries of ammunition and major hard goods were also higher. The advance in purchases of hard goods was particularly strong in the second half of last year, especially for aircraft, ordnance, and tactical missiles.

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